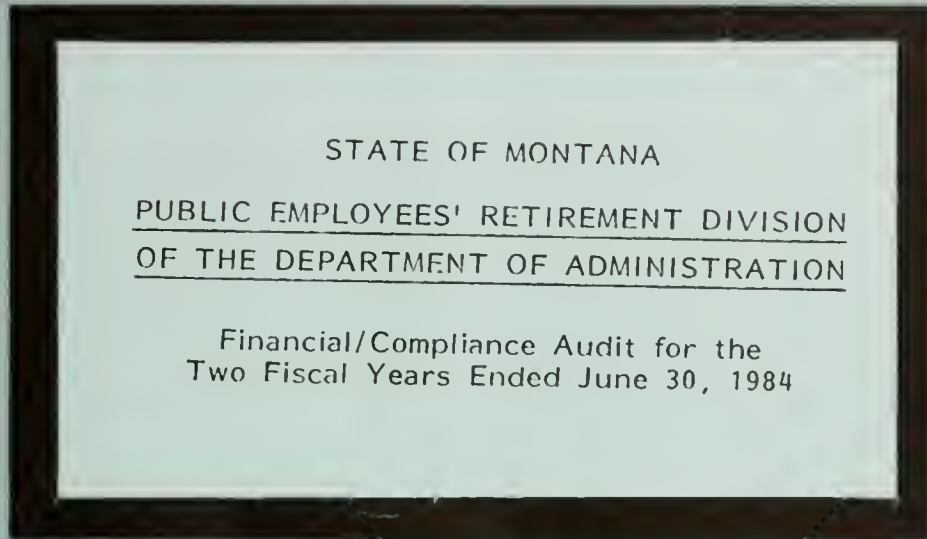


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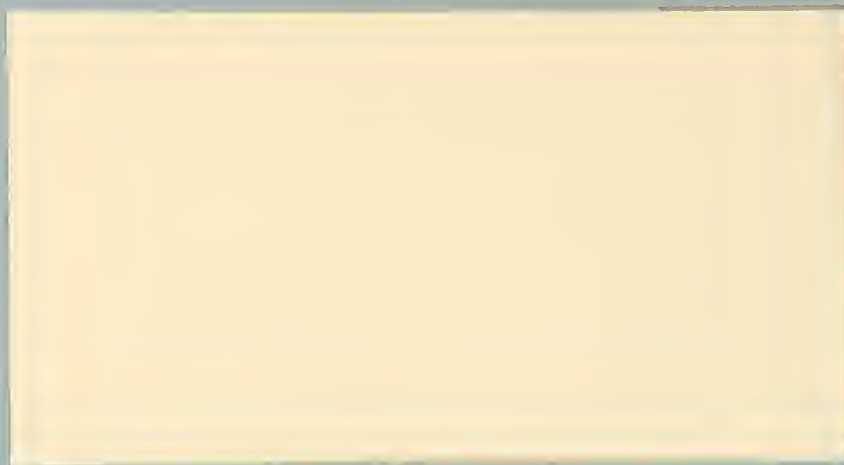
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STATE OF MONTANA
PUBLIC EMPLOYEES' RETIREMENT DIVISION
OF THE DEPARTMENT OF ADMINISTRATION

Financial/Compliance Audit for the
Two Fiscal Years Ended June 30, 1984

TABLE OF CONTENTS

	<u>Page</u>
Appointive and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Background	1
Volunteer Firefighters' Pension Plan	3
Benefit Payments	4
Data Processing	4
File Security	5
Disaster Recovery	5
Fiscal Year-End Cutoff	6
State Compliance	7
Untimely Report Submission	8
Overpayment of Benefits	8
Actuarial Evaluation	9
Funding Policy	9
Experience Studies	9
Other Issues	10
Internal Control	11
Prior Audit Recommendations	12
Auditor's Report and Agency Financial Statements	
Auditor's Report	13
Balance Sheets - Pension Trust Funds June 30, 1984	15
Balance Sheet - Agency Fund June 30, 1984	16

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Statements of Revenues, Expenses and Changes in Fund Balances - Pension Trust Funds for the Two Fiscal Years Ended June 30, 1984	17
Statements of Revenues, Expenses and Changes in Fund Balances - Pension Trust Funds for the Two Fiscal Years Ended June 30, 1983	18
Statements of Changes in Financial Position - Pension Trust Funds Fiscal Year Ended June 30, 1984	19
Statements of Changes in Financial Position - Pension Trust Funds Fiscal Year Ended June 30, 1983	20
Notes to the Financial Statements	21
Agency Response	32

APPOINTIVE AND ADMINISTRATIVE OFFICIALS

PUBLIC EMPLOYEES' RETIREMENT BOARD

		<u>Term Expires</u>
John L. Prebil, President	Helena	1985
E.J. McGreevey	Anaconda	1986
Robert L. Batista	Great Falls	1987
Patrick S. McKelvey	Helena	1988
Franklin H. Steyaert	Great Falls	1988
Michael S. Muszkiewicz	Helena	1989

ADMINISTRATIVE OFFICIAL

Lawrence P. Nachtsheim

Administrator


SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

	<u>Page</u>
<u>Recommendation #1</u>	
The division establish long range plans and objectives for managing the Firefighters' Pension Plan.	4
Agency Response: Concur. See page 33.	
<u>Recommendation #2</u>	
The division correct the inadequate segregation of duties in benefit processing by providing for a periodic review by another employee of a random sample of benefit changes.	4
Agency Response: Concur. See page 33.	
<u>Recommendation #3</u>	
The division revise its security rules to further restrict access to its production file.	5
Agency Response: Partially concur. See page 34.	
<u>Recommendation #4</u>	
The division establish a basic disaster recovery plan.	6
Agency Response: Partially concur. See page 34.	
<u>Recommendation #5</u>	
The division establish procedures to ensure transactions are properly recorded at fiscal year-end.	7
Agency Response: Concur. See page 35.	
<u>Recommendation #6</u>	
The division provide the Volunteer Firefighters' annual report by November 1 of each year as required by state law.	8
Agency Response: Concur. See page 35.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #7</u>	
The division comply with state law regarding the benefit payment limitation in the Volunteer Firefighters' Pension Plan.	8
Agency Response: Concur. See page 35.	
<u>Recommendation #8</u>	
The Board adopt a formal written funding policy for the retirement systems.	9
Agency Response: Partially concur. See page 36.	
<u>Recommendation #9</u>	
The Board adopt a policy regarding periodic experience studies.	10
Agency Response: Concur. See page 36.	



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INTRODUCTION

We performed a financial/compliance audit of the Public Employees' Retirement Division (PERD) for the two fiscal years ended June 30, 1984. The objectives of our audit were to: (1) determine if the division's financial statements present fairly the financial position of the various retirement funds and Social Security Agency Fund for the two fiscal years ended June 30, 1984; (2) determine the division's compliance with applicable state and federal laws and regulations; and (3) review the adequacy of the management information systems and make recommendations for improvement in the division's management and internal controls.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the administrator and staff of the Public Employees' Retirement Division for their cooperation and assistance during our audit.

BACKGROUND

The Public Employees' Retirement Division of the Department of Administration administers the activities of seven retirement systems listed below:

1. Public Employees' Retirement System
2. Judges' Retirement System
3. Game Wardens' Retirement System
4. Highway Patrolmen's Retirement System
5. Sheriffs' Retirement System
6. Municipal Police Officers' Retirement System
7. Firefighters' Unified Retirement System

The retirement systems' purpose is to provide retirement benefits to eligible retired employees or their beneficiaries in the most efficient manner possible.

In addition to administering the retirement systems, PERD also collects social security payments for employers and employees

and remits the collections to the federal government. The payments are invested by the Board of Investments when received by PERD and are redeemed when due to the federal government. The division uses the investment income in the Social Security account to pay the costs of administering the seven retirement systems.

Effective July 1, 1983, PERD assumed total administrative responsibility for the Volunteer Firefighters' Compensation Act. Prior to fiscal year 1984, PERD administered only the pension plan for the Volunteer Firefighters.

The division is governed by a five-member Public Employees' Retirement Board. Board members are appointed by the governor to five-year terms. The board has exclusive control over administering the funds of the seven retirement systems. Staffing and other administrative functions are the responsibility of the Department of Administration.

An actuarial valuation is performed every two years to determine the adequacy of each retirement system's funding. The results of the actuarial valuations as of July 1, 1984 are presented below.

SCHEDULE OF RETIREMENT SYSTEM FUNDING

<u>Retirement System</u>	<u>Adequacy of Funding July 1, 1984</u>	<u>Number of Years Required to Fund the Unfunded Liability</u>
Public Employees'	Adequate	36.58
Judges'	Adequate	150.00
Game Wardens'	Adequate	15.57
Highway Patrolmen's	Adequate	49.81
Sheriffs'	Adequate	10.98
Municipal Police Officers'	Adequate	35.92
Firefighters' Unified	Adequate	42.29

Source: The actuarial valuations dated July 1, 1984

The schedule indicates the actuary determined the Judges' Retirement System was adequately funded. The actuary made this determination because the system could be funded over a finite period of time (150 years). We believe that a retirement system

funded over 150 years may not be adequately funded. This period of time is far more than we consider reasonable.

VOLUNTEER FIREFIGHTERS' PENSION PLAN

Prior to July 1, 1983, the Volunteer Firefighters' Fund was administered jointly by PERD and the Division of Workers' Compensation. We noted in our fiscal year 1982 audit of the Division of Workers' Compensation that the fund balance of the fund was increasing approximately 10 percent per year. Since the last audit, the fund balance has increased more than \$1 million from \$2,731,011 to \$3,736,128.

Currently the division has not established a long range plan or objectives to effectively manage the Volunteer Firefighters' pension plan. The fund balance's growth is attributed to a state law which limits annual benefit distributions to the lesser of 95 percent of the previous year's increase in fund balance or the excess of the fund balance over \$1 million. Because the balance is now greater than \$3 million, the law has effectively limited distributions to 95 percent of fund balance increases. Without establishing long range plans and objectives, and making statutory revisions, the accumulated fund balance will not be available to pay pension benefits. If revisions are not made to the pension plan, and the fund balance continues to grow at a rate of 12.5 percent (the average growth rate for the past five years), it will accumulate to approximately \$6.7 million by fiscal year 1989.

The law was enacted when the fund balance was below \$1 million. The restriction on benefit distributions was intended to allow the fund balance to grow enough to provide a solid financial position for the fund. It appears the fund may now be financially solvent and the restriction may be obsolete. However, the division should gather additional pension plan information before seeking a legislative change in this plan.

The pension plan is not actuarially evaluated as are the other retirement systems. The division does not have data that would enable it to evaluate the projected future contributions into the plan or payments by the plan. Without this data, the division

cannot determine whether the accumulated fund balance is sufficient to meet future obligations of the pension plan. In order to effectively manage the plan, the division should develop information on projected future funding and benefit payments. Such information would enable the division to formulate long range plans regarding the system's accumulating fund balance.

RECOMMENDATION #1

WE RECOMMEND THE DIVISION ESTABLISH LONG RANGE PLANS AND OBJECTIVES FOR MANAGING THE VOLUNTEER FIREFIGHTERS' PENSION PLAN.

BENEFIT PAYMENTS

The retirement clerk at PERD has sole responsibility for making changes to the benefit payroll source tape. We found that these changes are only given a cursory review every three to six months by the benefits supervisor. Because of the lack of review, the possibility exists that unauthorized changes may be made to the benefit payroll.

The inadequate segregation of duties regarding this position at PERD has been included in our audit report in the previous two audits. The agency concurred with our recommendation each time. In its response to our recommendation in the last audit, PERD stated a random sampling of monthly changes to current benefit recipients was being examined. Such a review is not done.

RECOMMENDATION #2

WE RECOMMEND THE DIVISION CORRECT THE INADEQUATE SEGREGATION OF DUTIES IN BENEFIT PROCESSING BY PROVIDING FOR A PERIODIC REVIEW BY ANOTHER EMPLOYEE OF A RANDOM SAMPLE OF BENEFIT CHANGES.

DATA PROCESSING

The Public Employees' Retirement Division maintains a computer system which records member and employer contributions as well as

refunds of those contributions. A separate data base system maintains records on retirees. This system is used to produce monthly benefit payments, annual statements of retiree contributions and interest, and other information reports. The following section discusses an audit concern we have regarding PERD's file security.

File Security

The division should strengthen security to protect its production file from unauthorized access. Most systems analysts and computer programmers in CSD's Systems Development Bureau (SDB) have access to PERD's production file. SDB employees should not need to access the production file. Changes and/or updates should be tested and perfected on a separate file. The only people who require access to production files are input/output controllers and selected retirement division personnel. Allowing personnel to have unnecessary access to retirement benefit and contribution files increases the risk of unauthorized alterations to the files. Division personnel stated that a report including all people who have accessed PERD's files is received daily. They believe a review of this report provides good security.

RECOMMENDATION #3

WE RECOMMEND THE DIVISION REVISE ITS SECURITY RULES TO FURTHER RESTRICT ACCESS TO ITS PRODUCTION FILE.

Disaster Recovery

The division has no written disaster recovery plan in the event the state's central computer is destroyed, damaged, or unavailable for other reasons. Although it is rarely practical to have a disaster recovery plan that will allow for uninterrupted service, it is important to have written documentation of basic procedures should a disaster situation arise.

The division should begin by documenting data files needed to reconstruct its system. Also, written documentation should consist

of back-up procedures for these critical data files, including frequency of back-up and storage location. The division should also consider alternative processing facilities. Currently, the Information Services Division (ISD) of the Department of Administration has a plan for establishing an emergency computer center. Processing capacity at the emergency center will be limited. Only significant applications will be allowed to process. An agency needs to contact ISD and have its application designated as a priority to the state to be allowed processing in the event of an emergency. PERD should contact ISD to have its application designated as a priority application.

In summary, a disaster recovery plan should, at the very least, consider major points such as file back-up and alternative processing as mentioned above. Even though a complete plan covering all contingencies may be difficult to compile, consideration of these items would lessen confusion in the event of a disaster.

RECOMMENDATION #4

WE RECOMMEND THE DIVISION ESTABLISH A BASIC DISASTER RECOVERY PLAN.

FISCAL YEAR-END CUTOFF

We noted several instances in which transactions occurring near the end of the fiscal year were recorded in the wrong year. The errors we found are summarized below.

- An unfunded liability payment of \$71,045 due to the Municipal Police Officers' Retirement System on May 1, 1983, was not accrued on June 30, 1983. The receipt was recorded as fiscal year 1984 revenue when it should have been recorded in fiscal year 1983.
- Two fiscal year 1985 transactions were erroneously processed as fiscal year 1984 transactions in the Social Security Agency Fund. During July, state agencies are required by state policy to identify SBAS documents with the appropriate fiscal year. These two documents were not properly identified because division personnel thought unmarked documents would be processed as fiscal year 1985 transactions. One of the

errors caused the state's financial records to be misstated by \$4.5 million. The other error was not for a significant dollar amount. The division adjusted the financial statements contained in this report to properly reflect the \$4.5 million transaction.

- Benefit payments accrued at June 30, 1984 included a payment made on June 29. The payment was erroneously thought to be outstanding at June 30, thus it was accrued.

The errors we cited occurred from oversight or misunderstanding of cutoff procedures. The fact that these errors occurred indicates that the division's procedures for recording transactions at year-end should be reviewed to ensure material errors will not occur in the future.

RECOMMENDATION #5

WE RECOMMEND THE DIVISION ESTABLISH PROCEDURES TO ENSURE TRANSACTIONS ARE PROPERLY RECORDED AT FISCAL YEAR-END.

STATE COMPLIANCE

We have examined the financial statements of the Public Employees' Retirement Division (PERD) for the two fiscal years ended June 30, 1984, and have issued our report dated September 5, 1984. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Except for the instances of non-compliance described in the following sections, PERD complied with the terms and provisions of laws and regulations for the transactions tested. Nothing came to our attention in connection with our examination that caused us to believe that PERD was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Untimely Report Submission

The Public Employees' Retirement Board is required by state law to submit to the Governor a report covering the operations and proceedings relative to its administration of the Volunteer Firefighters' Compensation Act and the Volunteer Firefighters' Pension Plan. The report for the prior fiscal year is due November 1 of each year. The division's annual report, used to provide the above information for fiscal year 1982-83, was not issued until March 1984.

According to PERD officials, the delay was due to the fact that its report was being prepared for the first time on a word processor recently purchased. The staff required additional time to become familiar with the new system. The official believed the November 1 deadline may be attainable this year.

RECOMMENDATION #6

WE RECOMMEND THE DIVISION PROVIDE THE VOLUNTEER FIREFIGHTERS' ANNUAL REPORT BY NOVEMBER 1 OF EACH YEAR AS REQUIRED BY STATE LAW.

Overpayment of Benefits

In fiscal year 1984, the division paid benefits from the Volunteer Firefighters' Pension Plan in excess of the limit established by state law. According to state law, the amount to be paid during any fiscal year is the smaller of the amount in the fund in excess of \$1 million at the end of the previous fiscal year or an amount equal to 95 percent of the increase of the balance in the fund in the previous fiscal year. Using that criteria, the amount available to pay benefits in fiscal year 1983-84 was \$396,938. The division paid benefits of \$401,008, exceeding the limit by \$4,070.

RECOMMENDATION #7

WE RECOMMEND THE DIVISION COMPLY WITH STATE LAW REGARDING THE BENEFIT PAYMENT LIMITATION IN THE VOLUNTEER FIREFIGHTERS' PENSION PLAN.

ACTUARIAL EVALUATION

In conjunction with the financial/compliance audit of the Public Employees' Retirement Division we contracted with a consultant actuary to provide assistance in evaluating the actuarial work performed by the board's actuary. Our consultant reviewed the actuarial evaluation of the Public Employees' Retirement System. Based upon this review the consultant had several comments concerning the system. Based upon the comments made by the consultant, we make the following recommendations to the Public Employees' Retirement Board (Board).

Funding Policy

There is no formal written funding policy statement in existence for the retirement system. A funding policy statement should be designed for each retirement system to express the intent of the Board in ensuring that benefits for participants are properly funded. The funding policy should address the actuarial cost method, actuarial assumptions, the method of valuing assets, and the method of amortizing past service liabilities. The statement should be revised and reviewed periodically by the Board.

RECOMMENDATION #8

WE RECOMMEND THE BOARD ADOPT A FORMAL WRITTEN FUNDING POLICY FOR THE RETIREMENT SYSTEMS.

Experience Studies

In conjunction with a formal funding policy, the board should consider adopting a policy regarding the performance of periodic experience studies. In a plan the size of PERS it is important to ensure that the actuarial assumptions are indicative of expected future experience. This can be done by an experience study which reviews the recent past experience of the plan combined with an outlook as to how future long term experience may differ from the results of the past. The last formalized experience study of the PERS was performed in 1978.

Experience studies performed by the Board staff should address at least the following:

- Investment returns on PERS assets,
- The level and pattern of salary increases among participants at various ages and experience levels,
- The level and pattern of rates of termination of employment among different groups of participants at various ages and experience levels,
- The level and pattern of rates of retirement at various ages,
- The level and pattern of rates of disability at various ages,
- Experience with regard to the percentage of terminated participants, who are rehired and buy back their previous service credits.

The experience study should be presented in a formal report and the results used to assist in determining the actuarial assumptions as part of the funding policy.

RECOMMENDATION #9

WE RECOMMEND THE BOARD ADOPT A POLICY REGARDING PERIODIC EXPERIENCE STUDIES.

Other Issues

The consultant had additional concerns resulting from his review of the PERS actuarial evaluation. These concerns related to the amortization of the unfunded past service liability, the amortization period, the recognition or calculation of pension expenses, the accounting disclosures required for pension plans and an actuarial assumption related to periodic cost-of-living increases in benefit payments. Additional research is necessary before a formal recommendation can be made by this office. The recommendation will be made to the Department of Administration in the next regularly scheduled audit of that department.

INTERNAL CONTROL

We have examined the financial statements of the Public Employees' Retirement Division for the two fiscal years ended June 30, 1984. We issued our opinion dated September 5, 1984 on these statements. As part of our examination, we made a study and evaluation of the systems of control of the division. Our study evaluated the system as required by generally accepted governmental auditing standards for financial/compliance audits. We classified the controls in these categories: (1) revenue/receipts, (2) expenditures, (3) payables/receivables, (4) cash, (5) payroll and (6) electronic data processing (EDP).

We evaluated controls over revenue, expenditures, and EDP. We did not test controls for the other categories because it was more efficient to perform substantive testing. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the division is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in

the system. Accordingly, we do not express an opinion on the system of controls used by the division. However, our study disclosed conditions that indicate internal control weaknesses. These conditions relating to benefit payments and file security are discussed on pages 4 and 5, respectively.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial statements. This report on internal control does not affect our opinion on the financial statements.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

PRIOR AUDIT RECOMMENDATIONS

Our previous audit of the Public Employees' Retirement Division, for the two fiscal years ended June 30, 1982, contained five recommendations that are still applicable. The division implemented three, partially implemented one, and did not implement one of the recommendations. The recommendation which was not implemented deals with segregation of duties and is discussed on page 4 of this report.

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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DEPUTY LEGISLATIVE AUDITORS:

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PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Balance Sheets as of June 30, 1984, of the Pension Trust Funds and the Agency Fund and the related Statements of Revenues, Expenses, and Changes in Fund Balances, and Statements of Changes in Financial Position of the Pension Trust Funds administered by the Public Employees' Retirement Division for each of the two fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstance.

We did not examine investments or investment revenue administered by the Board of Investments. The following table illustrates the amount of total assets and total revenue these investments and investment revenues were in each of the financial statements:

INVESTMENT ASSETS AND REVENUE AUDITED BY OTHER AUDITORS

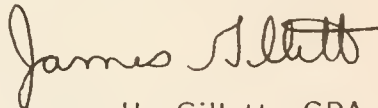
<u>Retirement System</u>	<u>Assets</u>	<u>Fiscal Year 1982-83 Revenue</u>	<u>Fiscal Year 1983-84 Revenue</u>
Public Employees'	\$404,270,294	\$35,236,103	\$40,663,751
Municipal Police Officers'	13,747,731	1,294,414	1,559,616
Game Wardens'	4,921,484	407,142	493,651
Sheriffs'	12,524,785	1,071,997	1,350,781
Highway Patrolmen's	10,827,644	909,540	1,088,484
Judges'	5,301,908	434,010	523,527
Firefighters' Unified	11,641,196	1,064,231	1,368,471
Volunteer Firefighters'			
Pension Plan	3,333,477		459,592
Social Security Agency Fund	12,048,203		

These investments were examined by other auditors whose report has been furnished to us, and our opinion, as it relates to the amounts of investments and investment revenue, is based solely upon the report of the other auditors.

The division's actuary projected the unfunded liability for the Judges' Retirement System will be fully amortized in 150 years. We are not certain that the system can continue to pay projected future benefits given its current level of funding. We believe the Judges' Retirement System is not adequately funded.

In our opinion, based upon our examination and the report of other auditors, and except for the item discussed in paragraph three, the financial statements referred to above present fairly the financial position at June 30, 1984, and the results of operations and changes in financial position for each of the two years then ended for such funds administered by the Public Employees' Retirement Division (one year only for the Volunteer Firefighters' Pension Plan), in conformity with generally accepted accounting principles which have been applied on a consistent basis.

Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

September 5, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

PUBLIC EMPLOYEES' RETIREMENT DIVISION
BALANCE SHEETS - PENSION TRUST FUNDS
JUNE 30, 1984

	<u>*PERS</u>	<u>Municipal Police</u>	<u>Game Wardens'</u>	<u>Sheriffs</u>	<u>Highway Patrolmens'</u>	<u>Judges'</u>	<u>Unified Fire- fighters'</u>	<u>Volunteer Fire- fighters'</u>
ASSETS								
Cash in Treasury	\$ 813,537	\$ 70,948	\$ 2,742	\$ 29,963	\$ 25,251	\$ 50,054	\$ 77,195	\$ 542
Accounts Receivable:								
Other	1,750					15		
Accrued Employee Contribution	1,287,029	38,246	5,732	46,312	13,888	4,250	36,090	
Accrued Employer Contribution	1,404,308	153,657	5,841	49,633	31,932	4,214	104,684	
Accrued Investment Income	9,006,452	367,745	146,270	347,923	276,955	115,373	289,116	87,387
Accrued State Contribution		2,700,586					2,925,538	338,742
Accounts Receivable - Other (Administration)	2,960,275							
Investments:								
Mortgages	52,248,151		30,244			35,885		
Securities	299,792,392	13,348,244	4,591,768	11,825,751	10,028,217	4,817,043	11,191,026	3,333,477
Common Stocks	51,769,756	399,487	299,472	699,034	799,427	448,980	198,711	
Other	459,995						251,459	
Unamortized Deferred Gains and Losses	15,959,371	170,477	188,941	231,627	330,381	73,332	(64,391)	63,367
Accrued Fines and Forfeitures Receivable			29,261					
Inventory on Hand	6,622							
Equipment - Less Accumulated Depreciation	38,423							
Total Assets	<u>\$435,748,061</u>	<u>\$17,249,390</u>	<u>\$5,300,271</u>	<u>\$13,230,243</u>	<u>\$11,506,051</u>	<u>\$5,549,146</u>	<u>\$15,009,428</u>	<u>\$3,823,515</u>
LIABILITIES								
Accounts Payable	\$ 145,419							
Accrued Refunds	433,544			\$ 11,970				
Accrued Benefits	4,327						\$ 50	
Unamortized Mortgage Discount	283,263							
Deferred Revenue	411						461	
Total Liabilities	<u>866,964</u>			<u>11,970</u>			<u>511</u>	
FUND BALANCE								
Annuity Savings Reserve	125,410,063	\$ 3,180,928	\$1,214,626	3,440,712	\$ 2,509,441	\$ 684,600	3,645,862	
Annuity Savings Interest Reserve	43,156,412	836,237	579,194	819,362	935,425	377,762	597,830	
Pension Accumulation Reserve	263,354,347	13,232,225	3,506,451	8,958,199	8,061,185	4,486,784	10,765,225	\$3,823,515
Reserve for Administrative Expenses	2,960,275							
Total Fund Balance	<u>434,881,097</u>	<u>17,249,390</u>	<u>5,300,271</u>	<u>13,218,273</u>	<u>11,506,051</u>	<u>5,549,146</u>	<u>15,008,917</u>	<u>3,823,515</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$435,748,061</u>	<u>\$17,249,390</u>	<u>\$5,300,271</u>	<u>\$13,230,243</u>	<u>\$11,506,051</u>	<u>\$5,549,146</u>	<u>\$15,009,428</u>	<u>\$3,823,515</u>

* For explanation of retirement system abbreviations see page 28.
The notes to the financial statements are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION
BALANCE SHEET - AGENCY FUND
JUNE 30, 1984

	<u>Agency Fund</u>
ASSETS	
Cash in Treasury	\$ 576,781
Accounts Receivable	
Other	70,600
Accrued Investment Income	38,974
Investments	<u>12,048,203</u>
Total Assets	<u>\$12,734,558</u>
LIABILITIES	
Due to Federal Government	\$ 9,774,283
Due PERS	<u>2,960,275</u>
Total Liabilities	<u>\$12,734,558</u>

The notes to the financial statements are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES - PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	<u>*PERS</u>	<u>Municipal Police</u>	<u>Game Wardens'</u>	<u>Sheriffs</u>	<u>Highway Patrolmens'</u>	<u>Judges'</u>	<u>Unified Fire- fighters'</u>	<u>Volunteer Fire- fighters'</u>
REVENUES								
Retirement Contributions:								
Member	\$ 23,835,463	\$ 553,306	\$ 154,959	\$ 752,392	\$ 376,444	\$ 109,392	\$ 511,079	
Employer	24,797,497	1,234,377	157,625	805,284	826,266	113,333	1,490,980	
State		2,116,206					2,342,271	\$ 338,742
Investment Income & Dividends	40,663,751	1,559,616	493,651	1,350,781	1,088,484	523,527	1,368,471	459,592
Fines & Forfeitures			272,841					
Court Fees						567,151		
Miscellaneous Revenue	566,645	16,160	2,962	12,400	6,863	1,993	15,899	5,866
Payback of Annuity Savings Interest	19,035			300				
Total Revenue	<u>89,882,391</u>	<u>5,479,665</u>	<u>1,082,038</u>	<u>2,921,157</u>	<u>2,298,057</u>	<u>1,315,396</u>	<u>5,728,700</u>	<u>804,200</u>
EXPENSES								
Benefit Payments	29,134,512	2,926,085	298,787	222,818	805,749	410,438	2,996,403	401,008
Refund to Member Contributions	6,719,438	71,241	325	278,658	11,525		48,591	
Refund of Employer Contributions	119,331				290			
Administrative Fee	572,754	16,160	2,962	12,400	6,863	1,993	15,899	5,866
Investment Expense	142,396	4,478	1,548	3,719	3,354	1,639	2,888	1,073
Insurance Payment								18,225
Total Expenses	<u>36,688,431</u>	<u>3,017,964</u>	<u>303,622</u>	<u>517,595</u>	<u>827,781</u>	<u>414,070</u>	<u>3,063,781</u>	<u>426,172</u>
EXCESS REVENUE OVER (UNDER) EXPENSES	53,193,960	2,461,701	778,416	2,403,562	1,470,276	901,326	2,664,919	378,028
Prior Year Adjustments	<u>434,424</u>	<u>79,040</u>	<u>1,763</u>	<u>14,727</u>	<u>2,822</u>		<u>21,243</u>	<u>368,817</u>
EXCESS REVENUE OVER(UNDER) EXPENSES AND OTHER SOURCES (USES):	53,628,384	2,540,741	780,179	2,418,289	1,473,098	901,326	2,686,162	746,845
FUND BALANCE, July 1, 1983 (Note 7)	<u>381,252,713</u>	<u>14,708,649</u>	<u>4,520,092</u>	<u>10,799,984</u>	<u>10,032,953</u>	<u>4,647,820</u>	<u>12,322,755</u>	<u>3,076,670</u>
FUND BALANCE, June 30, 1984	<u>\$434,881,097</u>	<u>\$17,249,390</u>	<u>\$5,300,271</u>	<u>\$13,218,273</u>	<u>\$11,506,051</u>	<u>\$5,549,146</u>	<u>\$15,008,917</u>	<u>\$3,823,515</u>

* For explanation of retirement system abbreviations see page 28.
The notes to the financial statements are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES - PENSION TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>*PERS</u>	<u>Municipal Police</u>	<u>Game Wardens'</u>	<u>Sheriffs</u>	<u>Highway Patrolmens'</u>	<u>Judges'</u>	<u>Unified Fire- fighters'</u>
REVENUES							
Retirement Contributions:							
Member	\$ 22,671,919	\$ 525,904	\$ 161,460	\$ 699,752	\$ 399,942	\$ 102,936	\$ 470,055
Employer	23,181,825	1,283,056	163,389	749,132	919,137	102,936	1,169,642
State		1,987,188					1,987,917
Investment Income & Dividends	35,236,103	1,294,414	407,142	1,071,997	909,540	434,010	1,064,231
Fines & Forfeitures			233,833				
Court Fees						359,719	
Miscellaneous Revenue	652,098						
Payback of Annuity Savings Interest	11,924						
Total Revenues	<u>81,753,869</u>	<u>5,090,562</u>	<u>965,824</u>	<u>2,520,881</u>	<u>2,228,619</u>	<u>999,601</u>	<u>4,691,845</u>
EXPENSES							
Benefit Payments	25,036,076	2,743,215	278,240	204,439	753,153	329,149	2,747,860
Refund of Member Contributions	6,230,042	14,819	16	136,442	346		15,777
Administrative Fee	477,785	11,594	2,382	8,804	5,034	1,653	11,257
Investment Expense	126,856	4,082	1,386	3,153	3,171	1,450	1,934
Total Expenses	<u>31,870,759</u>	<u>2,773,710</u>	<u>282,024</u>	<u>352,838</u>	<u>761,704</u>	<u>332,252</u>	<u>2,776,828</u>
EXCESS REVENUE OVER(UNDER) EXPENSES	49,883,110	2,316,852	683,800	2,168,043	1,466,915	667,349	1,915,017
Prior Year Adjustments	165,379	133,796		5,520	1,992	37,300	(9,845)
Other Financing Sources (Uses):							
Transfer In	31,139	15,685	90	18,018	12,466	33,248	
Transfer Out	(285,150)			(30,331)	(12,757)		
Administrative Fee Transfer In		11,594	2,382	8,804	5,034	1,653	11,257
EXCESS REVENUE OVER(UNDER) EXPENSES AND OTHER SOURCES (USES):	49,794,478	2,477,927	686,272	2,170,054	1,473,650	739,550	1,916,429
FUND BALANCE, July 1, 1982	<u>331,458,235</u>	<u>12,230,722</u>	<u>3,833,820</u>	<u>8,629,930</u>	<u>8,559,303</u>	<u>3,908,270</u>	<u>10,406,326</u>
FUND BALANCE, June 30, 1983	<u>\$381,252,713</u>	<u>\$14,708,649</u>	<u>\$4,520,092</u>	<u>\$10,799,984</u>	<u>\$10,032,953</u>	<u>\$4,647,820</u>	<u>\$12,322,755</u>

* For explanation of retirement system abbreviations see page 28.
The notes to the financial statements are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION
 STATEMENTS OF CHANGES IN FINANCIAL POSITION
 PENSION TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1984

	<u>*PERS</u>	<u>Municipal Police</u>	<u>Game Wardens'</u>	<u>Sheriffs</u>	<u>Highway Patrolmens'</u>	<u>Judges'</u>	<u>Unified Fire- fighters'</u>	<u>Volunteer Fire- fighters'</u>
SOURCES (USES) OF WORKING CAPITAL								
Excess of Revenues Over Expenses	\$53,628,384	\$2,540,740	\$780,180	\$2,418,289	\$1,473,098	\$901,326	\$2,686,162	\$746,845
Prior Year Adjustments	(65,276)							
NET INCREASE IN WORKING CAPITAL	<u>\$53,563,108</u>	<u>\$2,540,740</u>	<u>\$780,180</u>	<u>\$2,418,289</u>	<u>\$1,473,098</u>	<u>\$901,326</u>	<u>\$2,686,162</u>	<u>\$746,845</u>
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL								
Cash	\$(1,683,591)	\$ 26,257	\$(14,567)	\$ 9,408	\$ (22,542)	\$ 6,036	\$ (13,075)	\$(28,159)
Accounts Receivable - Other	542,935		17,276			15		
Accrued State								
Contributions Receivable		179,188					493,724	338,742
Accrued Employee								
Contributions Receivable	95,333	(1,158)	354	5,736	1,004	102	1,093	
Accrued Employer								
Contributions Receivable	103,766	36,850	362	4,547	2,087	66	17,637	
Accrued Investment								
Income Receivable	1,341,138	41,962	30,744	57,829	36,380	16,062	87,044	87,387
Investments	50,617,856	2,282,083	701,547	2,357,589	1,398,658	859,793	2,076,223	336,922
Unamortized Deferred Gains								
and Losses	2,664,564	(25,417)	44,464	(4,889)	57,511	9,130	8,332	11,953
Unamortized Mortgage Discount	75,112							
Accounts Payable	(145,419)							
Accrued Expenses	(48,175)	975		(11,931)		10,122	(50)	
Deferred Revenue	(411)						15,234	
NET INCREASE IN WORKING CAPITAL	<u>\$53,563,108</u>	<u>\$2,540,740</u>	<u>\$780,180</u>	<u>\$2,418,289</u>	<u>\$1,473,098</u>	<u>\$901,326</u>	<u>\$2,686,162</u>	<u>\$746,845</u>

* For explanation of retirement system abbreviations see page 28.
 The notes to the financial statements are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION
STATEMENTS OF CHANGES IN FINANCIAL POSITION
PENSION TRUST FUNDS
FISCAL YEAR ENDED JUNE 30, 1983

	<u>*PERS</u>	<u>Municipal Police</u>	<u>Game Wardens'</u>	<u>Sheriffs</u>	<u>Highway Patrolmens'</u>	<u>Judges'</u>	<u>Unified Fire- fighters'</u>
SOURCES OF WORKING CAPITAL							
Excess of Revenues Over Expenses	<u>\$49,794,478</u>	<u>\$2,477,927</u>	<u>\$686,272</u>	<u>\$2,170,054</u>	<u>\$1,473,650</u>	<u>\$739,550</u>	<u>\$1,916,429</u>
NET INCREASE IN WORKING CAPITAL	<u><u>\$49,794,478</u></u>	<u><u>\$2,477,927</u></u>	<u><u>\$686,272</u></u>	<u><u>\$2,170,054</u></u>	<u><u>\$1,473,650</u></u>	<u><u>\$739,550</u></u>	<u><u>\$1,916,429</u></u>
ELEMENTS OF NET INCREASE (DECREASE) IN WORKING CAPITAL							
Cash	\$ 405,071	\$ 21,520	\$(20,252)	\$ (23,230)	\$ 2,160	\$ 14,116	\$ 18,726
Accounts Receivable - Other	174,157		(1,165)	(18)		(47,109)	
Accrued State							
Contributions Receivable		258,257					432,987
Accrued Employee							
Contributions Receivable	(165,160)	1,497	769	2,709	1,282	616	832
Accrued Employer							
Contributions Receivable	(141,167)	(213,759)	786	3,985	1,968	616	19,297
Accrued Investment							
Income Receivable	1,082,680	82,542	16,614	63,172	34,738	13,982	119,528
Investments	49,005,823	2,396,790	682,983	2,202,301	1,416,260	787,237	1,413,478
Unamortized Deferred Gains							
and Losses	(800,405)	(74,127)	6,537	(80,217)	17,242	(19,786)	(72,723)
Unamortized Mortgage Discount	101,234						
Accrued Expenses	132,245	5,207		1,352		(10,122)	
Deferred Revenue							(15,696)
NET INCREASE IN WORKING CAPITAL	<u><u>\$49,794,478</u></u>	<u><u>\$2,477,927</u></u>	<u><u>\$686,272</u></u>	<u><u>\$2,170,054</u></u>	<u><u>\$1,473,650</u></u>	<u><u>\$739,550</u></u>	<u><u>\$1,916,429</u></u>

* For explanation of retirement system abbreviations see page 28.
The notes to the financial statement are an integral part of this statement.

PUBLIC EMPLOYEES' RETIREMENT DIVISION

Notes to the Financial Statements

Fiscal Year Ended June 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Public Employees' Retirement Division (PERD) administers the activities of the eight retirement systems listed below:

- 1) Public Employees' Retirement System
- 2) Judges' Retirement System
- 3) Game Wardens' Retirement System
- 4) Highway Patrolmen's Retirement System
- 5) Sheriffs' Retirement System
- 6) Municipal Police Officers' Retirement System
- 7) Firefighters' Unified Retirement System
- 8) Volunteer Firefighters' Pension Plan

In addition to administering the retirement systems, the division collects social security payments for employers and employees and remits the collections to the federal government.

a. Description of Funds

The accounts of the division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equities, revenues, and expenditures. The following funds are used by the division:

FIDUCIARY FUND TYPES

Pension Trust Fund - A trust fund is used to account for assets held by the division in a trustee capacity. The Pension Trust Fund is a trust fund used to account for public retirement systems.

Agency Fund - To account for assets held by the division as an agent for the federal government.

b. Basis of Accounting

The preceding financial statements were prepared from the records of the Public Employees' Retirement Division. The division utilizes the accrual basis of accounting. This basis records expenditures when incurred and revenue when earned.

c. Investments in Securities

Securities are stated at cost for investments in federal and state government securities and corporate securities, increased by the amount of unamortized premiums and purchased interest and reduced by the amount of unamortized bond discounts.

<u>Retirement System</u>	<u>Unamortized Premiums</u>	<u>Interest Purchased</u>	<u>Bond Discount</u>
Public Employees'	\$313,623	\$432,568	\$21,290,410
Municipal Police Officers'	13,223	19,856	499,046
Sheriffs'	12,524	34,158	446,410
Highway Patrolmen's	4,703	22,224	540,651
Game Wardens'	8,358	13,441	287,208
Judges'	2,620	13,481	194,713
Firefighters' Unified	10,634	11,951	260,166
Volunteer Firefighters'	177	2,943	196,394

At June 30, 1984 the market value of securities for each system were as follows:

Public Employees'	\$365,267,665
Municipal Police Officers'	11,663,163
Sheriffs'	10,929,565
Highway Patrolmen's	8,792,228
Game Wardens'	4,028,756
Judges'	4,388,305
Firefighters' Unified	10,373,021
Volunteer Firefighters'	2,800,183

2. ADMINISTRATIVE FEE

Under the authority of 19-1-602, MCA, the division pays the cost of administering the various retirement systems from moneys earned on Social Security Agency Fund investments. Administrative costs of the retirement systems are recorded in an administrative

cost clearing account. At year-end the administrative fees are distributed to each retirement system based on the total number of retired members of the systems. Total Administrative Expenses for the Public Employees' Retirement Division for fiscal years 1984 and 1983 were \$761,459 and \$663,890, respectively.

The Social Security Agency Fund reflects an accounts payable to PERS for unspent investment earnings. The PERS statements reflect an account receivable and reserve of \$2,960,275 for the balance remaining in the Agency Fund.

3. GAINS AND LOSSES ON BOND SWAPS

The deferral and amortization method of accounting is used for recognition of gains and losses on bond swaps. Under this method gains and losses are netted against the investment account and amortized over the life of the bond acquired or sold, whichever has the shorter life.

4. STATE CONTRIBUTIONS

In addition to regular employer and employee contributions two retirement systems receive additional contributions from the state. For the fiscal year ended June 30, 1984, the dollar amount for the state contribution to the Municipal Police Officers' Retirement System was calculated on 14.04 percent of the annual compensation paid to all active members during the preceding year, as stated in 19-9-702, MCA.

For the fiscal year ended June 30, 1984, the dollar amount for the state contribution to the Firefighters' Unified Retirement System was calculated at 18 percent of the annual compensation paid to all active members during the preceding year, as stated in 19-13-604, MCA.

All funding for the Volunteer Firefighters' Pension Plan is contributed by the state. Each year the plan receives five percent of the premium taxes collected by the State Auditor's Office.

5. OTHER INVESTMENTS

Other investments in the Firefighters' Unified Retirement System are being controlled by the cities which are member employers of the retirement system. These investments are not under the control of the Board of Investments.

6. SOCIAL SECURITY AGENCY FUND

The Public Employees' Retirement Division collects Social Security payments from state and local government entities. These Social Security contribution receipts are payable to the federal government on a semi-monthly basis.

7. VOLUNTEER FIREFIGHTERS' PENSION PLAN

Effective July 1, 1983, the division assumed total administrative responsibility for the Volunteer Firefighters' Compensation Act. Prior to fiscal year 1984, the division administered only the pension plan for the Volunteer Firefighters. At July 1, 1983, the consolidated fund balance for the Volunteer Firefighters' Pension Plan was \$3,076,670.

8. TRANSFERS

The Statewide Budget and Accounting System (SBAS) was reorganized at the beginning of fiscal year 1983-84 and the financial statements for this period reflect the change. Due to the new treasury fund structure, transactions between retirement systems are no longer reported on the financial statements as transfers. These transactions are considered an expenditure to one system and revenue to the other.

9. CONTINGENCIES

The Montana Supreme Court ruling in the case of Lenny Bay vs. Public Employees' Retirement Division adversely affects the Municipal Police Officers' Retirement System and Sheriffs' Retirement System. At this time the division does not know the impact

of this decision on each of these retirement systems. The benefits won by Lenny Bay are not of a significant dollar amount and the division is not aware of any other individuals who may be affected.

10. FUNDING METHOD

The method of funding employed by each retirement system is commonly referred to as the entry age normal cost method. This method established a normal cost of each fund as well as an unfunded accrued liability. The normal cost is the level percentage of total salaries required to fund the benefits, assuming this percentage has been contributed since each member's entry into the fund.

The unfunded accrued liability represents the excess of the present value of total liabilities over the present assets of the fund and the present value of expected future contributions for the normal cost.

In order to maintain a fund on an actuarially sound basis, the rate of contribution should be such as to meet the normal cost in addition to making progress towards the amortization of the unfunded liability. The systems' actuary determined all of the retirement systems are funded on an actuarially sound basis.

The following schedule reports the amount of unfunded liability at June 30, 1984, for each retirement system:

	<u>Unfunded Liability at June 30, 1984</u>
Public Employees'	\$281,932,440
Municipal Police	32,492,453
Game Wardens'	3,475,610
Sheriffs'	1,415,825
Highway Patrolmen's	10,781,410
Judges'	6,366,475
Unified Firefighters'	46,882,278

11. ACTUARIAL ASSUMPTIONS

The actuarial valuation as of July 1, 1984, has changed certain actuarial assumptions for each retirement system. The

changes have a net result of lowering the funding requirement for each retirement system. The changes in assumptions affect each retirement system administered by the division except as noted below:

1. The mortality rates were set back one year to reflect the increase in life expectancies.
2. The withdrawal rates were lowered to adjust for the decreased terminations experienced by the systems. (This change applies to all retirement systems except for the Judges' Retirement System.)
3. The assumed investment return for future years was increased from 7 percent to 8 percent. This change was made to reflect the favorable investment experience of the systems and to anticipate the average expected investment return during the funding period for benefits to current members.
4. The underlying cost-of-living assumption was increased from 5.5 percent to 6.5 percent. This adjustment was made to anticipate future salary increases based upon economic projections and the historic relationship between investment return and cost-of-living increases.

12. ACTUARIAL ACCRUED BENEFITS

Separate actuarial valuations have been conducted to determine the present values of the accrued benefits under seven retirement systems administered by the the Public Employees' Retirement Division. The present values were determined for accrued benefits based on current salaries as well as projected future salaries. Also, the present values were determined separately for vested and non-vested benefits.

The table below illustrates the present value of accrued benefits as of July 1, 1984:

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$545,139,836	\$686,507,770
Non-Vested Accrued Benefits	21,342,987	57,864,949
Total Accrued Benefits	<u>\$566,482,823</u>	<u>\$744,372,719</u>

GAME WARDENS' RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 6,309,849	\$ 6,828,316
Non-Vested Accrued Benefits	505,522	2,157,896
Total Accrued Benefits	<u>\$ 6,815,371</u>	<u>\$ 8,986,212</u>

HIGHWAY PATROL RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 15,406,622	\$ 15,591,566
Non-Vested Accrued Benefits	4,220,595	6,968,346
Total Accrued Benefits	<u>\$ 19,627,217</u>	<u>\$ 22,559,912</u>

SHERIFFS' RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 7,282,400	\$ 7,780,537
Non-Vested Accrued Benefits	839,255	7,862,505
Total Accrued Benefits	<u>\$ 8,121,655</u>	<u>\$ 15,643,042</u>

FIREFIGHTERS' RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 51,303,290	\$ 61,801,249
Non-Vested Accrued Benefits	1,491,264	5,808,481
Total Accrued Benefits	<u>\$ 52,794,554</u>	<u>\$ 67,609,730</u>

MUNICIPAL POLICE OFFICERS' SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 46,781,144	\$ 49,482,623
Non-Vested Accrued Benefits	613,821	2,487,277
Total Accrued Benefits	<u>\$ 47,394,965</u>	<u>\$ 51,969,900</u>

JUDGES' RETIREMENT SYSTEM

	<u>Without Salary Projections</u>	<u>With Salary Projections</u>
Present Value of:		
Vested Accrued Benefits	\$ 10,214,630	\$ 12,257,892
Non-Vested Accrued Benefits	657,121	1,460,513
Total Accrued Benefits	<u>\$ 10,871,751</u>	<u>\$ 13,718,405</u>

13. SUPPLEMENTAL PENSION BENEFITS

The Municipal Police Officers' Retirement System provides supplemental benefits to members who retired prior to July 1, 1975. These benefits are paid from the premium tax fund by the State Auditor's Office. Similarly, the Firefighters' Unified Retirement System provides supplemental benefits to members who retired prior to July 1, 1973. The benefits are also paid from the premium tax fund by the State Auditor's Office.

The annual supplemental benefits provided as of July 1, 1984, under the Municipal Police Officers' Retirement System is \$798,168. This amount represents 8.71 percent of the total payroll of the active members. The annual supplemental benefits provided under the Firefighters' Unified Retirement System is \$866,510, which represents 10.73 percent of the total payroll of the active members.

The liability for these supplemental benefits were not included in the actuarial valuations as of July 1, 1984, since the costs are funded from the source outside of the Public Employees' Retirement Division.

14. ABBREVIATIONS

The financial statements include acronyms abbreviating each retirement system. The abbreviations are explained below.

PERS	Public Employees' Retirement System
Municipal Police	Municipal Police Officers' Retirement System
Game Wardens'	Game Wardens' Retirement System
Sheriffs	Sheriffs' Retirement System
Highway Patrolmens'	Highway Patrolmen's Retirement System
Judges'	Judges' Retirement System
Unified Firefighters'	Firefighters' Unified Retirement System
Volunteer Firefighters'	Volunteer Firefighters' Pension Plan

15. CONTRIBUTION BENEFIT AND REFUND RATES

The schedule on the following two pages summaries the contribution, benefit and refund rates for each retirement system and for the Volunteer Firefighters' Pension Plan.

SCHEDULE OF CONTRIBUTION BENEFIT AND REFUND RATFS

	<u>P.E.R.S.</u>	<u>JUDGES'</u>	<u>HIGHWAY PATROLMEN'S</u>
CONTRIBUTIONS			
Employee	6%	6% - Elected or appointed before 7/1/83. 7% - Elected or appointed on or after 7/1/83.	6.5%
Employer	6.417%	6%	16.57%
Additional State		31% of salaries paid to District Judges and Supreme Court Justices in system, plus 25% of Supreme Court fees.	
SOCIAL SECURITY BENEFITS	Yea	Yes	No
BENEFITS			
Retirement (Age Requirement)	50-actuarially reduced benefit. 60-With 5 years service. 65-No minimum service requirement.	65-With 5 years service.	None Compulsory retirement at age 60 - no minimum service requirement.
(Service Requirement)	Any age after 30 years service. Any age after 25 years service - Actuarially reduced benefit.	See above. (Involuntary retirement benefits also available)	20 years service. 10-20 years service - reduced from age 60. (Involuntary retirement)
Formula (Service Retirement)	1/60 X years of service X F.A.S.*	3 1/3% X years of service (15 years maximum) X current annual salary + 12, plus 1% salary for each year of service after 15 years.	2% X years of service X F.A.S., plus 1% of F.A.S. for each year of service beyond 25 years.
DISABILITY RETIREMENT (Non-Duty Related)	Duty or non-duty with a minimum of 5 years service - 25% of F.A.S. or 90% of annuity, normally paid at age 60, whichever is greater.	Actuarially reduced benefit before age 60. Regular retirement allowance after age 60.	2% X years of service X F.A.S., actuarially reduced from age 60.
(Duty related)	See above.	1/2 current annual salary or a regular retirement allowance, whichever is greater.	50% of F.A.S., regardless of length of service.
DEATH BENEFITS (Non-duty related)	Duty or non-duty - Member's contributions and accumulated interest, plus one months salary for each year of service up to a maximum of 6 years. <u>or</u> If a member had a minimum of 5 years of service, the beneficiary may elect a monthly annuity.	Contributions and accumulated interest. <u>or</u> The actuarial equivalent of any of the involuntary retirement provisions.	Member's contributions and accumulated interest. <u>or</u> A monthly benefit based on the actuarial equivalent and reduced from age 60. (Basic formula reduced by the early retirement factor.)
(Duty related)	Same as above, except 6 month salary provision is not allowed.	Regular service retirement benefit.	1/2 F.A.S., less the amount paid to the beneficiary by Workers' Compensation.
REFUND AT TERMINATION	Contributions and accumulated interest. (No service requirement)	Contributions only. (Accumulated interest with 5 years of service)	Contributions only. (Accumulated interest with 10 years of service.)

F.A.S.* Equals average of 36 highest consecutive months salaries - unless otherwise defined. Firefighters' Unified - average of last 36 months of active service, or, if not a member that long, over period of membership.

Monthly Compensation** Full-paid firefighter - regular monthly compensation, excluding overtime, holiday payments, shift differential payments, compensatory time payments, and payments in lieu of sick leave, definition different for part-paid firefighters.

<u>SHERIFFS'</u>	<u>GAME WARDENS'</u>	<u>MUNICIPAL POLICE</u>	<u>VOLUNTEER FIREFIGHTERS'</u>	<u>UNIFIED FIREFIGHTERS</u>
7%	7%	6% - Employed on 6/30/79. 7.5% - Employed after 6/30/79.	None	6%
7.62%	7.15%	14.04% - City until 6/30/85, 13.02% thereafter	None	18% - Decreased to 13.02% effective 7/1/85.
	Fines and forfeitures.	14.04% until 6/30/85, 15.06% thereafter	5% of fire insurance pre- mium tax.	18% - From insurance premium tax. Increased to 22.98% effective 7/1/85.
Yes	Yes	No	Yes	No
55-With 25 years service. 55-With 20 years service- actuarially reduced ben- efit. Compulsory retirement at age 65-No minimum service requirement. (Exception-Elected Sheriff or Undersheriff)	55-With 20 years service. Compulsory retirement at age 60.	Any age with 20 years service, if employed prior to 7/1/75. Minimum retire- ment age of 50 with 20 years service, if employed after 7/1/75. Mandatory retirement at age 65.	55-With 20 years service. 55-With 10 years service, under special conditions.	50-with 10 years of service. Mandatory retire- ment at age 65.
See above. 10-20 years of service at age 55. (Involuntary retirement)	See above. 10-20 years of service at age 55. (Involuntary retirement)	See above.	See above.	See above.
2% X years of service X F.A.S.*, plus twice the actuarial equivalent of member's accumulated contributions made after 25 years of service.	2% X years of service X F.A.S.*, plus the actuarial equivalent of an annuity, based on the member's and the state contributions made after 25 years of ser- vice.	Employed prior to 7/1/77 - ½ F.A.S.** (F.A.S. = highest monthly salary - last 12 months) Employed after 7/1/77 - ½ F.A.S.*. Added to these amounts would be 1% of F.A.S. for each year of service after 20 years. (Maximum benefit = 60% of F.A.S.)	20 years service - maximum \$200 per month 10-20 years of service - prorated amount.	Hired before 7/1/81 - 20 years service - Age 50 or more - ½ final monthly compensation**, plus 1% for each year in excess of 20. (Maxi- mum - 60% of final monthly compensation**.) Hired before 7/1/81 - 10 to 20 years service - Age 50 or more - 2% X final monthly compensa- tion** X years of service. Hired on or after 7/1/81 - 10 or more years service - Age 50 or more - 2% X F.A.S.* X years of service. (Maxi- mum 30 years.) Affected by mandatory retire- ment - Hired on or after 7/1/81 - ½ F.A.S.*, plus 2% of F.A.S.* for each year in excess of 20. (Maximum 30 years)
2% X years of service X F.A.S. X early retire- ment factor.	2% X years of service X F.A.S. - actuarially reduced from age 55.	Duty or non-duty - ½ F.A.S.	None	Duty or non-duty - Hired before 7/1/81 - ½ final monthly compensation**, plus 1% for each year in excess of 20. (Maximum - 60% of final monthly compensation**.) Hired on or after 7/1/81 - ½ F.A.S.* plus 2% for each year in excess of 25, up to a maximum of 5 years of additional service.
½ F.A.S.	½ F.A.S. after 10 years of service.	See above.	\$200 X years of service (minimum of 10) + 20.	See above.
Members' contributions and accumulated interest. or 2% X years of service (25 years maximum) X F.A.S. reduced from age 65.	Members' contributions, plus accumulated inter- est. or A monthly benefit begin- ning at age 55. (2% X years of service X F.A.S. X early retirement factor)	Duty or non-duty - spouse receives ½ F.A.S. until death or remarriage. Benefits also available for dependent children and other beneficiaries.	Duty or non-duty - \$2,000 maximum - paid to the ben- eficiary of an active fire- man with 20 years service. (Paid monthly) Also, ben- efits available for bene- ficiaries of retired fire- men with 10-20 years service and dependent children.	Duty or non-duty - Hired before 7/1/81 - ½ final monthly compensation**, plus 1% for each year in excess of 20. (Maximum - 60% of final monthly compensation**.) Benefits also available for dependent children and other beneficiaries.
½ F.A.S., reduced to 25% for the period of time the beneficiary receives Workers' Compensation.	½ F.A.S., less amount paid to beneficiary by Workers' Compensation.	See above.	\$1,500 or funeral expenses, whichever is less.	See above.
Contributions and accum- ulated interest. (No service requirement)	Contributions only. (Accumulated interest with 10 years of ser- vice)	Contributions only. (Accumulated interest with 10 years of service)	None	Contributions and accumulated interest. (No service requirement.)

AGENCY RESPONSE

DEPARTMENT OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT DIVISION



TED SCHWINDEN, GOVERNOR

1712 9TH AVENUE

STATE OF MONTANA

(406) 444-3154

HELENA, MONTANA 59620

RECEIVED

NOV 28 1984

MONTANA LEGISLATIVE AUDITOR

November 28, 1984

Mr. Robert R. Ringwood
Legislative Auditor
Capitol Building
Helena, Montana 59620

Dear Mr. Ringwood:

Enclosed is my written response to the recommendations contained in the audit report for the Public Employees' Retirement Division for the period ended June 30, 1984.

The retirement board, the director of the Department of Administration and I have reviewed the audit report and appreciated the professional manner in which the audit has been conducted and the areas of concern reflected in the report. We will work to implement the recommendations.

Thank you for the opportunity to respond to this report. If you wish to discuss any information presented, please contact me at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence P. Nachtsheim".

Lawrence P. Nachtsheim
Administrator

cc: Morris Brusett

DEPARTMENT OF ADMINISTRATION

PUBLIC EMPLOYEES' RETIREMENT DIVISION

RECOMMENDATION NO. 1

We recommend the division establish long-range plans and objectives for managing the Volunteer Firefighters' Pension Plan.

RESPONSE:

While we concur in the intent of Recommendation No. 1, the Public Employees' Retirement Board is without the resources or the statutory authority to establish a long-term objective and policies for this fund.

We do not disagree with the fact stated in the discussion prior to Recommendation No. 1, relative to the assets of the system. The discussion does not include the facts relative to the current benefit payments nor the accruing liabilities. As of November 1, 1984, 380 benefit recipients were receiving about \$22,335 per month or \$268,020 annually. There are between three and four thousand active members currently accruing benefits in this system. We do not believe that a change should be recommended in the current benefit payments until these accruing liabilities are determined.

To date all changes in this system have been promulgated by the Montana Volunteer Firefighters' Association. The retirement board is charged exclusively with the administration of this statute contrary to the authorities granted in the acts of the other systems administered by the retirement board.

A budget request of \$15,000 will be included in the upcoming budget to provide an ongoing computer analysis of the accruing liabilities of this system. The establishment of any long-term policy in this system will be dependent on the legislature's action on this budget and the bill creating a pension commission which was recommended by Interim Committee 3.

RECOMMENDATION NO. 2

We recommend the division correct the inadequate segregation of duties in benefit processing by providing for a periodic review by another employee of a random sample of benefit changes.

RESPONSE:

Again, we concur in this recommendation. We apologize to the auditor and the committee for the failure of the retirement administrator to follow-up on the previous concurrences.

The procedures for the monthly review were assigned to the lead worker in the benefits area and the initial reviews were conducted. Due to the limited personnel resources in the PERD due in part to changing personnel and reassignment and increase in duties in several areas, the review got pushed aside and was not continued. At the same time, the division was able to increase the refunding dates from one to two times per month and reduce the delay of first benefit payments from sixty to thirty days even if the first payment is made on an estimated basis.

We will again institute a review procedure but dependent on the additional tasks and responsibilities and resources available to the division, we will continue to make timely delivery of services to our membership the number one priority of the division.

RECOMMENDATION NO. 3

We recommend the division revise its security rules to further restrict access to its production file.

RESPONSE:

We partially concur. The retirement division does not have direct control of its own computer files. We contract the technical computer services from the Information Services Division who are the state's experts in this area.

We do not feel that we have the expertise to make specific recommendations as to the operations in this technical area. We have communicated the concerns of the Legislative Auditor to the Information Services Division and feel that any implementation of this recommendation should be made by that division as part of their overall delivery of computer services.

RECOMMENDATION NO. 4

We recommend the division establish a basic disaster recovery plan.

RESPONSE:

We partially concur. Again we have communicated the concerns of the Legislative Auditor to the Information Services Division. In the short run, we feel that by total dedication of PERD resources, we could respond to most disasters on a manual basis for a period of up to sixty days making two months benefit payments manually, if necessary.

We believe that a major disaster plan is required for all state government rather than one for each division of every department. Further, the limited resources of the division does not provide enough technical staff time to consider all the potential emergencies that could arise in this area, let alone, their resolution.

To date the retirement division has responded to many minor emergencies relative to benefit payments such as computer break-down at a critical point-in-time, program blow-ups, improper application of data tapes, illness and death of key personnel and has never failed to deliver the monthly benefit payments on time since the inception of the system in 1945.

RECOMMENDATION NO. 5

We recommend the division establish procedures to ensure transactions are properly recorded at fiscal year-end.

RESPONSE:

We concur. A similar recommendation was made in the previous audit report concerning annual payments to several of the systems during FY 1981-82. Since the last audit, over 4,000 cash transactions involving deposits were made by the division involving several hundred million dollars. During the closing of FY 1984, the cut-off procedures changed some of the coding which had previously been used and the individuals involved in preparing the deposits were not briefed on the coding changes. We will continue to advise the individuals making these deposits of the proper procedures.

RECOMMENDATION NO. 6

We recommend the division provide the Volunteer Firefighters' Annual Report by November 1 of each year as required by state law.

RESPONSE:

We concur. A preliminary report to the Governor was made in October, 1984. This report will be supplemented by an annual report for all systems administered by the PERD as soon as the 1984 Legislative Audit is completed.

RECOMMENDATION NO. 7

We recommend the division comply with state law regarding the benefit payment limitation in the Volunteer Firefighters' Pension Plan.

RESPONSE:

We concur. In making the estimate for annual payments in July of each year, there is a statutory formula used to calculate the benefits for each individual. A rounding error occurred on these individual benefit calculations and a slight over estimate of accruing income resulted in the error. The matter has been discussed with the personnel involved and a review of each year's calculation has been established.

RECOMMENDATION NO. 8

We recommend the board adopt a formal written funding policy for the retirement systems.

RESPONSE:

We concur in part. The board does review with the actuary the actuarial assumptions to be used in each actuarial valuation. This process is more extensive this year occurring over the course of four meetings as the actuary recommended changes in both the interest and salaries assumptions. Both of these assumptions were incorporated in this year's valuation.

While the board has continually monitored and recommended to the legislature changes in the funding structure of the individual retirement systems, it is difficult for the board to establish a long-term funding policy when every change in funding requires an act of the legislature. This position was supported by Interim Committee 3 of the Legislature which recommended an oversight commission of four legislators and two appointees of the Governor to establish long-term retirement policy and overview all retirement legislation.

RECOMMENDATION NO. 9

We recommend the board adopt a policy regarding periodic experience studies.

RESPONSE:

We concur. The board discussed this matter prior to the review by the consulting actuary of the Legislative Auditor and requested the division include funding in the 1985-86 budget for an actuarial experience study. It should also be noted that in reviewing data included in each valuation, both the actuary and retirement division compare the data for each valuation to the previous valuations in order to ascertain the accuracy of current data and also determine any trends in employment and retirement that should be considered in the preparation of the current valuations.

